

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: GTE MIDWEST INCORPORATED AND IOWA TELECOMMUNICATIONS SERVICES, INC.	DOCKET NO. SPU-99-29
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ORDER REQUIRING ADDITIONAL INFORMATION

(Issued December 14, 1999)

On October 20, 1999, GTE Midwest Incorporated (GTE) and Iowa Telecommunications Services, Inc. (ITS), (collectively, the "Applicants") filed a joint application for an order approving the proposed sale of GTE's Iowa exchanges to ITS pursuant to IOWA CODE §§ 476.20, 476.29, and 476.77 (1999). The filing has been identified as Docket No. SPU-99-29.

After completing its initial review of the application, the Board finds it has a number of questions concerning the proposed transaction. It is possible that some of these questions could wait until the hearing in this docket, but some of them require relatively detailed responses that are likely to take some time to assemble. The result would be that many of these questions would have to be answered after the hearing, potentially extending the time required for the Board to complete its review of the proposed reorganization. The ability of the Board to complete that review in a timely manner will be improved by receiving answers to all of these questions in advance of the hearing. Accordingly, the Board will direct Applicants to

answer all of the questions on the attached document, identified as Attachment A and incorporated herein by this reference, within 14 days of the date of this order. If the Applicants are unable to respond to some of the questions in that time frame, they should file a detailed request for extension of time, applying only to those questions that cannot be answered within 14 days, and explaining why that is so.

IT IS THEREFORE ORDERED:

Applicants are directed to answer the questions set forth in the attached document, identified as Attachment A, within 14 days of the date of this order. Answers should be submitted in the form of sworn testimony and exhibits.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr. /s/ Diane Munns
Executive Secretary

Dated at Des Moines, Iowa, this 14th day of December, 1999.

**ATTACHMENT A
TO
"ORDER REQUIRING ADDITIONAL INFORMATION"**

DOCKET NO. SPU-99-29

The following questions are to be answered by the Applicants. They are organized by reference to Board rules, statutory requirements, and the Joint Application for ease of use. Omission of any particular rule or statutory requirement should not be interpreted as any indication that the Joint Application is sufficient or deficient with respect to that particular requirement.

FILING REQUIREMENTS FROM BOARD RULES

199 IAC 32.4(1) General information.

- b. An analysis of the alternatives to the proposed reorganization which were considered and their impact on rates and services, if any.**

Question:

- 1) Please provide alternatives to the proposed reorganization that were considered and what would have been their impact on rates and services?

32.4(2) Reorganization details.

- f. Copies of all contracts which directly relate to the reorganization. If there are any unwritten contracts or arrangements, a summary of the unwritten contracts or arrangements verified by an office of the operating company shall be provided.**

Questions:

- 1) Please provide copies of all schedules to the Asset Purchase Agreement.
- 2) Please state whether the Asset Purchase Agreement is the only contract, written or unwritten, which directly relates to the reorganization. If it is not, please provide copies of all other written agreements, and summaries of all unwritten agreements, which directly relate to the reorganization.

32.4(3) Financial details.

a. An analysis of whether the affected public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure and corporate financial integrity, is impaired.

Question:

- 1) ITS believes it will be able to raise additional capital through the addition of new services such as vertical services. How will the company attract customers to these new services and what is the expected market penetration?

d. Current and proposed reorganization balance sheets and capital structures.

Question:

- 1) Please file the current balance sheets, income statements, and cash flow statements of INS and Touch America with the Board.

e. Stockholder annual report for two years preceding the year of filing for all affected companies.

Question:

- 1) Please file any annual reports for INS or Touch America, if available, with the Board.

32.4(4) Impact of reorganization.

a. A cost-benefit analysis which describes the projected benefits and costs of reorganizing. The benefits and costs should be quantified in terms of present value. The sources of such benefits and costs shall be identified.

Questions:

- 1) GTE, what factors led to the decision to accept the bid from ITS?
- 2) GTE, how many other bidders were considered, who were they and why were their bids rejected?
- 3) ITS, provide a complete and detailed cost/benefit analysis.

b. An analysis of the projected financial impact of the proposed reorganization on the ratepayers of the affected public utilities for the first five years after reorganization.

Questions:

- 1) ITS, you state that you intend to enhance service offerings, bring over approximately 385 GTE employees to ITS and hire 75-100 additional employees. Provide a detailed and specific plan on how you intend to enhance service offerings, improve service quality along with the projected staff augmentations while maintaining financial health without a rate increase for five years.

STATUTORY FACTORS

2. (476.77(3)“b”) WHETHER THE PUBLIC UTILITY’S ABILITY TO ATTRACT CAPITAL ON REASONABLE TERMS, INCLUDING THE MAINTENANCE OF A REASONABLE CAPITAL STRUCTURE, IS IMPAIRED.

Questions:

- 1) Please provide the TR-1, including supplements for GTE Midwest, for last two years preceding this filing.
- 2) Please explain why the right side and left side of GTE Midwest’s balance sheet do not balance for years 1997 to 1999? (Source: “Proposed Acquisition of General Telephone Company of Iowa; Balance Sheet,” p. 1 of 2)
- 3) Based on the balance sheet referenced above, it appears ITS’ retained earnings for each year continue to grow by the amount of income estimated that same year. Does this mean INS and Touch America will allow ITS to keep all future earnings?
- 4) The second statutory factor requires that the utility maintain a reasonable capital structure. Given that ITS does not have a historical capital structure to review, the only capital structure available is the pro forma capital structure provided within the filing. Witness Packer’s Exhibit KEP 2 shows a confidential estimate of the common equity ratio for year 2000. Mr. Packer, in your opinion, does this ratio represent a reasonable capital structure for ITS? Explain why or why not.
- 5) Witness Heithoff states the pro forma statements reflect “major” increases in revenues because of projected increases in vertical services and non-regulated Internet services. (Direct, p. 6) Please provide the process used and any documentation supporting how the revenue growth projections were

determined for the pro forma statements? In addition, please explain whether the effect of competition in the next five years was factored in your growth estimates? If yes, explain how. If no, explain why competition was not considered a factor.

- 6) Have the rating agencies determined a bond rating for ITS' debt issues? If yes, what is it?
- 7) What happens if ITS does not generate the expected revenues to be able to pay off its debt interest expense and principal as well as continue with its planned capital improvements? Would INS and Touch America be willing to provide the needed capital to protect the financial stability of ITS?
- 8) Industry Publications have indicated that Montana Power Company might separate Touch America from its organization early next year. If this does occur, what impact will that have on this reorganization?

3. (476.77(3)“c”) WHETHER THE ABILITY OF THE PUBLIC UTILITY TO PROVIDE SAFE, REASONABLE, AND ADEQUATE SERVICE IS IMPAIRED.

Questions:

- 1) Provide service measurements based upon the criteria set forth in the Board's standards of quality of service (IOWA ADMIN. CODE 199-22.6) for the time period of January 1997 through the most current month.
- 2) Provide a listing, by exchange, of all central office switching equipment including remotes that are used in the provision of local service. The listing should include switch type, manufacture, vintage, and the current capabilities/features of each switch or remote.
- 3) Has ITS developed plans or a schedule, by exchange, to offer custom calling services? If so, please provide a listing of the exchanges, the proposed services and the anticipated date of the service offering.
- 4) Has GTE/ITS developed programs or mechanisms to determine what plant facilities/features in specific areas or locations appear to be causing customer service problems? If a process or program exists, please provide a summary copy of the results or outputs. Also, if corrective action for specific problem areas has been determined, please provide the intended action plan for each identified issue or problem area.
- 5) ITS has identified specific amounts for capital budgets for the next several years. Please provide a listing of the identified projects with the estimated cost of each project and the estimated amounts for each year.

- 6) Mr. Kilburg indicated in his direct testimony on page 5 that the GTE distribution plant has analog subscriber carrier in use. The testimony also indicates that these units have been identified. Please provide a listing by exchange with projected replacement dates and the proposed technology involved with each replacement.
- 7) In the latest information compiled by the Board, approximately 58 exchanges in Iowa lack non-toll access to the Internet. Fifty-seven of the exchanges are located in GTE's serving areas. What plan or schedule has ITS developed to provide non-toll access for these exchanges? Please provide a listing, by exchange, of the anticipated date of the offering of non-toll access to the Internet.
- 8) Mr. Anderson stated on page 6 of his direct testimony that this sale will include small portions of cross boundary service areas extending into the state of Missouri.
 - a) Will this sale involve facilities or assets located in the state that are used to provide service for GTE customers located in other jurisdictions not under the Board's authority? If so, please identify each jurisdiction, the number of customers involved and the types of services being provided.
 - b) Are some customers residing within the state of Iowa receiving telephone service from GTE facilities located in another state? If so, please identify each jurisdiction, the number of customers involved and the types of services being provided.
 - c) For each of the situations listed in a. & b. above, how are these customers being treated in this sale?
 - d) For each situation listed in a. & b. above, what steps are being taken to ensure that 911/E911 traffic is being routed to the appropriate jurisdiction for each customer?
- 1) What steps should the Board take to monitor service quality if the proposed reorganization is not disapproved?
- 2) What steps will be taken to enhance the quality of service for carrier-to-carrier and wholesale customers of ITS?
- 3) What steps will ITS take to promote competition in its serving areas?
- 4) Does ITS intend to compete with other service providers in locations outside of their serving areas? If so, what are these plans and scheduled deployments?

- 5) As ITS begins to develop and establish its own Operational Support Systems (OSS), will the system(s) be designed to allow for CLEC access in a competitive environment?
- 6) If the Operational Support Systems (OSS) are not initially designed for CLEC access in a competitive environment, what steps will ITS take to ensure there will be no unnecessary delays in a competitor's market entry?
- 7) What plans, if any, does ITS have for providing advanced or enhanced services in the rural markets of Iowa?
- 8) What plans or action steps will ITS take to enhance plant facilities to accommodate the provisioning of advanced services to all customers?
- 9) GTE Midwest, Inc. currently has Interstate tariffs filed for each of its three study areas in the state of Iowa. Will ITS consolidate the three study areas and tariffs as part of this reorganization?
- 10) Are the assets, services or customers of GTE Communications Corporation (GTECC) and GTE Telecommunications Services, Inc. (GTE TSI) included as part of this sale/reorganization?
- 11) Does ITS have plans to modify toll routes or points of interconnection with IXCs that are currently involved with the provision of toll? Will there be changes in rate centers?
- 12) Several communities/municipalities within the local GTE service areas have indicated they are dissatisfied with the existing service arrangements and have expressed a desire to provide telecommunications service. Has ITS developed a plan to interact with these organizations for the purpose of correcting undesirable service conditions? If so, what are these plans?
- 13) What plan or process does ITS intend to utilize to inform customers and the public on the change in ownership? How will customers and the public be informed on the new points of contact for ITS?
- 14) ITS has stated that they will honor all existing interconnection agreements between GTE and other competitors as part of this reorganization. The interconnection agreements contain provisions for the pricing of unbundled network elements and discounts for services being resold.
 - a) What steps, if any, will ITS take to incorporate ITS's costs/prices into the existing agreements?
 - b) What process or course of action will ITS propose to resolve the issues in Docket RPU-96-7 that is currently before the Board?

4. (476.77(3)“d”) WHETHER RATEPAYERS ARE DETRIMENTALLY AFFECTED.

Questions:

- 1) GTE, are there any current or pending tax audits that would impact the amount of Accumulated Deferred Income Taxes and Accumulated Reserve Deficiencies related to the Iowa properties?
- 2) GTE, provide schedule of depreciation, including explanations of the methods and lives used for each class of plant.
- 3) ITS, will you be adopting GTE's schedule of depreciation lives? If the method or life is different, please provide a schedule of depreciation lives with explanations of the methods and lives proposed for each class of plant that you will be purchasing from GTE.
- 4) Should ITS propose to change any of the plant depreciation lives or methods, when will ITS file a depreciation proceeding with the Board?
- 5) Witness Heithoff states the customers' rates are not anticipated to increase for the next five years. (Direct, p. 6) Is this a commitment? If yes, what will happen after that time period expires? How will the acquisition costs be booked? The acquisition adjustment will be amortized over the next twenty years. Are you expecting to recover this adjustment through rates eventually?
- 6) ITS, how long do you intend to operate under price plan regulation?
- 7) Does ITS plan to pursue the introduction of state legislation to increase the access line criteria for the determination of rate/non-rate regulation?